

ANGUS COUNCIL

**SCRUTINY & AUDIT COMMITTEE – 5 MARCH 2019
MEETING OF ANGUS COUNCIL – 21 MARCH 2019**

TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

REPORT BY THE HEAD OF FINANCE & LEGAL

ABSTRACT

This report seeks Members approval of the proposed Treasury Management Strategy for Angus Council in 2019/20. The production of a Treasury Management Strategy Statement for the forthcoming financial year is a requirement of the Treasury Management in the Public Services Code of Practice issued by the Chartered Institute of Public Finance and Accountancy. This report also presents the 2019/20 Treasury Management Strategy Statement for review by the Scrutiny and Audit Committee.

1 RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

1.1.1 Review and scrutinise the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20 attached as **Appendix A** to this report; and

1.1.2 Provide any commentary considered appropriate at this time.

1.2 It is recommended that the Council:

1.2.1 Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20 attached as Appendix A to this report; and

1.2.2 Approve the Treasury Indicators in Appendix A – Annex D (Tables 2 and 3).

2 ALIGNMENT TO THE COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT PLAN

2.1 Effective Treasury Management maximises the resources available to the Council to provide services. The activities undertaken through the Council's treasury management processes within the framework of the Treasury Management Strategy therefore contribute as a whole to the local outcomes contained within the Council Plan and Local Outcome Improvement Plan.

3 BACKGROUND

3.1 The need to prepare a Treasury Management Policy Statement and a Treasury Management Strategy Statement is a requirement of the Treasury Management in the Public Services Code of Practice (2017 edition) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The attached Treasury Management Strategy Statement has been prepared in accordance with this Code.

3.2 The purpose of the Treasury Management Strategy Statement is to develop borrowing, investment and debt rescheduling strategies for the forthcoming financial year based on prospects for interest rates. The strategies adopted take account of the current treasury position and treasury limits in force which will limit treasury risk and the treasury activities of the Council.

3.3 The Treasury Management Strategy Statement does not sit in isolation however rather it is one element in a suite of strategies and reports.

3.4 The CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition) introduced a new requirement for the production of a capital strategy, with effect from 2019/20 onwards.

- 3.5 Paragraph 21 of the Prudential Code states that “the capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial stability”.
- 3.6 Angus Council's capital strategy for 2019/20 was presented at the special budget meeting of 21 February 2019 – report 60/19 refers.

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

- 4.1 The 2019/20 Treasury Management Strategy Statement and Annual Investment Strategy sets out the expected treasury management activities for Angus Council for the forthcoming financial year and is attached at Appendix A for consideration and approval by Members.

Structure of Strategy Document

- 4.2 Although the complete strategy statement document is necessarily lengthy to satisfy the requirements of the Code of Practice, members are asked to note that the core strategy statement is contained in the first 11 pages of Appendix A.
- 4.3 Appendix A also contains a number of Annexes which are required for full compliance with the Treasury Management code of practice and as such are necessarily of a more technical nature. In the main however, they contain additional information and explanations of aspects of the core strategy document, with the exception of Annex D which contains statutory indicators that require to be considered and approved by members.

Changes from the 2018/19 Strategy Statement

- 4.4 No changes in respect of the borrowing aspects of the strategy are proposed.
- 4.5 No changes in respect of the permitted investment levels for investment in individual financial institutions / funds are proposed.
- 4.6 With regard to levels of income generated from investing surplus cash, the 2018/19 strategy set a rate of return of 0.65%. As at 31 January 2019, the average rate of return achieved to date was some 0.78%. The rate of return achieved will depend on a number of factors including: movements in the Bank of England base rate; the borrowing appetite of permitted counterparties; the interest rates offered by those permitted counterparties; the level of cash balances the Council has available for investment; and the duration of that investment.

For this 2019/20 strategy the Council will aim to achieve a return of 0.95% on investments placed during the financial year. This is significantly higher than the average rate of return achieved to date in 2018/19 and there are risks attached given the potential future economic uncertainties that may be brought about by Brexit and the fact that levels of surplus cash may be lower than in previous years depending on cash flow patterns and forecasts. The pattern of average rates of return over the previous quarters has been rising however, as demonstrated in the following table, therefore a revised rate of 0.95% is considered to be achievable:

2018/19 Quarter 1 average	0.61%
2018/19 Quarter 2 average	0.74%
2018/19 Quarter 3 average	0.88%
January 2019 average	0.93%
2018/19 average at 31 January 2018	0.78%

- 4.7 In August 2018 CIPFA published guidance notes on treasury management specifically for local authorities ('Treasury Management in the Public Services: Guidance Notes for Local Authorities Including Police Forces and Fire and Rescue Authorities', 2018 Edition). These guidance notes included the following updates to the treasury indicators that need to be approved as part of the strategy:

- the principal invested for longer than 364 days indicator has been changed to principal invested for over a year, in line with financial reporting definitions (Appendix A – Annex D refers);

- the interest rate exposure indicator has been removed and replaced with a requirement for the Treasury Management Strategy to state how interest rate exposure is managed and monitored (section 5.1 of Appendix A refers); and
- the maturity structure of borrowing indicator has been extended to cover variable as well as fixed rate debt (Appendix A – Annex D refers). In this regard, the following thresholds have been set for the maturity structure of variable rate borrowing:

Threshold	Upper Limit	Lower Limit
Under 12 months	5%	0%
12 months and within 24 months	5%	0%
24 months and within 5 years	5%	0%
5 years and 10 years	5%	0%
10 years and above	0%	0%

Non-Treasury Investments

- 4.8 The 2017 Treasury Management Code includes a section focussed on what it refers to as “non-treasury investments”. These are investments which could be made for for the purposes of generating substantial increases in income compared to normal treasury management activities. It’s expected that these would mainly be major commercial property purchases focussed on mainly income generation rather than pursuit of service objectives and priorities.
- 4.9 Angus Council does not have any such investments and has no plans to invest in this way and therefore there has been no need to incorporate this within the Treasury Strategy Statement attached at Appendix A. This will be kept under review and changes made to the Strategy Statement should that ever become necessary.

5 ROLE OF SCRUTINY AND AUDIT COMMITTEE

- 5.1 The guidance supporting the Treasury Management Code of Practice recommends that each Council delegate the role of scrutiny of treasury management strategy and policies to a specific named body or committee. For Angus Council it is the Scrutiny and Audit Committee that undertakes this role. On this basis the Committee is recommended to review and scrutinise the 2019/20 Treasury Management Strategy Statement and provide any commentary considered appropriate at this time.

6 FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however form a significant part of the Council's financial arrangements and its financial well being.
- 6.2 For context however, a review has been undertaken of the potential financial benefit of the rate of return change described above. This change, along with a more positive interest rate outlook, has informed the increase in the internal target rate of return from 0.65% in 2018/19 to 0.95% for 2019/20 as set out at section 6.2 of Appendix A.
- 6.3 Available surplus cash balances and interest rates fluctuate throughout the year and so it is difficult to be definitive about the financial value of this change. Setting the 0.30% increase in the target rate of return against the actual outturn for 2017/18 however, indicates that a benefit of some £197,000 may accrue.

7 RISK IMPLICATIONS

- 7.1 This report does not require any specific risk issues to be addressed that are not already covered above and in the attached Appendix A, however members will be aware that the management of risk is an integral part of the Council’s treasury management activities.

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were used in the preparation of this report.

REPORT AUTHOR: Dawn Johnston
EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices:

Appendix A: 2019/20 Treasury Management Strategy Statement and Annual Investment Strategy